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SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S SEVENTEENTH REQUEST FOR INFORMATION

Question Staff No. 17-10:

What amount of the \$455,122,490 stand-alone NOLC asset claimed by SWEPCO is actually available for SWEPCO to use to offset future income tax liabilities and avoid cash payments to its parent or the IRS? If the full \$455,122,490 is not available to offset future income tax liabilities and SWEPCO must make cash payments to its parent or the IRS, how does that impact SWEPCO's ability to use the cash received through the tax allocation agreement to fund investments as suggested by the rebuttal testimony of Mr. Hodgson?

Response Staff No. 17-10:

On a stand-alone basis, \$455,122,490 (the full amount of the Company's NOL carryforward asset) would be available to offset the Company's future income tax liabilities. Customers would realize the cash benefits of the NOL carryforward via a rate base reduction whenever the Company incurs sufficient taxable income to offset its future tax liabilities.

Since the interest free loan related to the deferred tax expense component of the cost of service provides usable funds to the Company, it is appropriate to reduce rate base by the ADFIT associated with that interest free loan. However, when that interest free loan goes away, so too should the corresponding reduction in rate base. The cash received by SWEPCO as a result of the tax allocation agreement is not funded by customers. It is funded by AEP and its other affiliated companies.

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